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October 14, 1996

**EX PARTE**

The Honorable James Quello, Commissioner  
Federal Communications Commission  
1919 M Street, NW, Room 802  
Washington, DC 20554

Re: CC Docket No. 96-98  
CC Docket No. 96-45 ✓

Dear Commissioner Quello:

SBC Communications Inc. (SBC) is very concerned with the direction taken by the Federal Communications Commission (FCC) regarding historic local exchange company embedded costs in its recent Order in the interconnection proceeding (i.e., CC Docket No. 96-98). SBC is most troubled by the impacts that direction is certain to have on universal service support.

SBC provides quality service to *all* customers in its service territory, both as a retail provider to end-users and as a network provider to competitive carriers. SBC must be allowed to recover those costs, which were legitimately incurred and authorized by regulators at the state and federal levels, anytime its network or services are utilized by others. SBC's costs, prices, and the attendant universal service support mechanisms (e.g., residually-priced local exchange service, geographically-averaged pricing, extended depreciation lives, explicit support funds, inter-service price support, etc.) were subject to intense regulatory scrutiny, including public inspection and comment, prior to approval. Regulators routinely audit and review these support mechanisms to ensure adequate and appropriate cost recovery.

In its Order in CC Docket No. 96-98, the FCC has mandated interconnection prices based on the so-called Total Element Long Run Incremental Cost methodology (TELRIC), in spite of the availability of actual cost data. Currently, models using similar proxy costs premised on TELRIC have been proposed in the Universal Service proceeding (i.e., CC Docket No. 96-45). Actual cost data is in the record and available to the FCC for use in this proceeding. Because TELRIC does not

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adequately account for actual costs, the FCC and state regulators should not rely on such analysis as the basis for determining universal service funding.

Section 254 of the Telecommunications Act of 1996 (i.e., the Act) directs that the FCC and Joint Board adopt universal service support mechanisms which are "specific, predictable and sufficient . . . to preserve and advance universal service."

A determination of universal service funding based on the TELRIC methodology does not meet these criteria. Such a model assumes that the entire network is continuously updated as newer technologies become available. But, the fact is, networks in the "real world" represent a hybrid of various technologies that have evolved over time -- not just the most current, most advanced technologies.

Furthermore, the costs derived from the currently proposed proxy models are not specific, since they do not represent the actual costs of any carrier's existing network. Instead, the proposed proxy models derive only a theoretical cost estimate for a theoretical network. Moreover, universal service funding levels based on results produced by the proposed models are not predictable. Here again, because the costs produced by these models are significantly out of touch with the realities of our existing telecommunications networks, neither the FCC, state regulators, nor telecommunications carriers can predict, with any degree of certainty, the probability of universal service cost recovery on a forward-looking basis.

Thus, the cost models proposed in this proceeding (and in the Interconnection Order), ignore not only the significant capital investments already made to construct the networks, but also the real costs necessary to maintain those networks. It would be impossible for these models to produce a cost-recovery mechanism that comes close to meeting the third and final criterion of Section 254 (i.e., sufficiency), since by their very nature they misstate the actual costs of building and operating networks.

Federal and state regulators have overseen that interstate and intrastate revenues, in total, currently recover the actual cost of operating the public network. Therefore, SBC believes actual costs are the true benchmark and must be relied upon because they most adequately satisfy the Act's three prong test. The use of costs which are not "specific, predictable and sufficient" undermines the universal service principles mandated by the Act.

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Additionally, Sections 253 and 254 of the Act are designed so that rules adopted at the federal level will not impede the ability of the states to provide adequate cost recovery and the preservation and advancement of universal service. Likewise, state regulators must be relied upon to implement plans which do not burden or would be inconsistent with Federal universal service support mechanisms.

For these reasons, SBC calls upon the Joint Board on Universal Service and state regulators, as well as the FCC, to recognize their statutory obligation to identify the actual costs underlying universal service, to determine proper levels for universal service support, and to adopt explicit universal service support mechanisms which do not competitively disadvantage any particular telecommunications provider, including SBC and other incumbent LECs.

Sincerely,

A handwritten signature in black ink, appearing to read "D.T. Hubbard", with a long horizontal flourish extending to the right.

cc: William F. Caton, Acting Secretary ✓  
Federal Communications Commission